

Message Text

SECRET

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11

ACTION NEA-16

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 ISO-00 FEA-02

CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00

AEC-11 AID-20 CEA-02 CIEP-02 COME-00 EB-11 FPC-01

H-03 INR-10 INT-08 L-03 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

DRC-01 /212 W

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 7417

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY THERAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T JIDDA 3226

E.O. 11652: GDS

TAGS: ENGR, OPEC, OECD, IR

SUBJECT: SAUDI LEVEL OF PRODUCTION COULD DETERMINE OIL PRICES

1. THE TOUGH QUESTIONS THAT SHOULD BE ASKED AMOUZEGAR
IS WHAT HE IS GOING TO DO IF SAUDI ARABIA DOES DECIDE
TO GO FOR A 9.4 MILLION BARREL LEVEL OF PRODUCTION IN
THE SECOND QUARTER. WITH THE OPEC 15 PERCENT CUT

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ELIMINATED ACCORDING TO PRESS REPORTS, SAUDI ARABIA NOW

HAS THE CAPABILITY OF PRODUCING ENOUGH OIL THAT PRICES OF BUY-BACK AND OTHER NON-GULF OIL WILL INEVITABLY COME DOWN IF SAG CHOOSES TO PRODUCE AT FULL CAPACITY FOR THE REMAINDER OF THE YEAR. EVEN IF OTHER OIL PRODUCERS SHOULD DECIDE TO FURTHER REDUCE THEIR PRODUCTION, SAUDI ARABIA HAS SOME LEEWAY TO AFFECT OIL PRICES BY PRODUCTION ALONE. IT IS ALSO INTERESTING THAT AMOUZEGAR DID NOT REALLY CHOOSE TO ANSWER THE CHALLENGE FROM YAMANI TO REDUCE POSTED PRICES TO \$9. IT IS NOT AN ANSWER TO SUGGEST YAMANI COULD HAVE CHOSEN SOME OTHER LEVEL OF PRICES; ALTERNATIVE FUELS ARE NOT NECESSARILY PRICED AT \$7 A BARREL.

2. THE POINT IS, THE CURRENT ARGUMENT BETWEEN IRAN AND SAUDI ARABIA IS NOT LIKELY TO BE SETTLED AT QUITO BUT BY POLICY CHOICES MADE BY FAISAL AND YAMANI, PARTICULARLY LEVEL OF PRODUCTION IN THE SAUDI FIELDS FOR THE REMAINDER OF THE YEAR. YAMANI HAS ALREADY CONCEDED THAT PRICES CAN PROBABLY NOT BE PERMITTED TO REDUCE THE PRODUCER GOVERNMENT TAKE BELOW \$7 A BARREL. WHAT HE WISHES TO DO IS REDUCE COMPANY PROFITS AND AVERAGE GOVERNMENT TAKE TO THE \$7-\$8 LEVEL. WE SEE A PARALLELISM WITH WHAT IRAN AND SAUDI ARABIA ARE PROFESSING TO US THEY WISH. THE QUESTION IS, COULD CONSUMER NATIONS NEGOTIATE AT A MINI-SUMMIT A GOVERNMENT-TAKE OF \$7 AND A COMPANY PROFIT OF NO MORE THAN 50 CENTS-60 CENTS? BIRD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, POLICIES, PETROLEUM INDUSTRY, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 07 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974JIDDA03226
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740145-0042
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740666/aaaacejz.tel
Line Count: 86
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAR 2002 by collinp0>; APPROVED <08 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SAUDI LEVEL OF PRODUCTION COULD DETERMINE OIL PRICES
TAGS: ENRG, IR, OPEC, OECD, (YAMANI, AHMAD ZAKI), (AMOUZEGAR, JAMSHID)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005